

OFFICE OF THE TREASURER

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The Treasury Note

A monthly newsletter of municipal finance
 September 1, 2001

2001-02 Budget Highlights

The Governor signed the 2001-02 Budget Act on July 26, 2001. The \$103.3 billion budget includes investments in public education, health care, tax relief, transportation and public safety. The budget provides a reserve of \$2.6 billion for economic uncertainties. Additional budget highlights include:

- Spending for K-12 and Higher Education accounts for 53.8 percent of the General Fund Budget
- Per-pupil spending increased to \$7,002, which is a 4.9 percent increase over last year
- Revisions to the one-quarter cent sales tax rate reduction formula
- Ongoing tax relief of \$4.3 billion, including vehicle license fee reductions, and additional relief for Senior Citizens' Property Tax and Renters' Tax Assistance, and various state sales tax exemptions
- \$8.3 billion expenditures for Caltrans for state highway and mass transportation projects, as well as programs that assist local governments for constructing and operating highway, road and transit systems

Below is a summary of the 2001-02 General Fund Budget:

2001-02 Governor's Budget General Fund Budget Summary

(Published 7/26/2001)

(Dollars in Millions)

	2000-01	2001-02
Prior Year Balance	\$9,139	\$7,055
Revenues and Transfers	\$78,003	\$75,105
Total Resources Available	\$87,142	\$82,160
Expenditures	\$80,087	\$78,763
Fund Balance	\$7,055	\$3,397

Budget Reserves and Set-Asides:

Reserve for liquidation of Encumbrances	\$701	\$701
Set-aside for Legal Contingencies	\$7	\$100
Special Fund for Economic Uncertainties	\$6,347	\$2,596

For more information on the state budget, a link to the 2001-02 Budget Highlights provided by the Department of Finance is available on our website at <http://www.treasurer.ca.gov/stofin.htm>.

Listing of Redemptions and Defeasances

There are no redemptions or defeasances for October 1, 2001 that have been announced as of September 1, 2001.

Questions regarding redemptions or registration information can be directed to the *Investor Relations Section* at (800) 900-3873.

Frequently Asked Questions

Q: Can investors purchase bonds directly from the State?

A: No, the State does not sell bonds directly to investors. The State sells the entire bond issue to an underwriting banker (or an underwriting syndicate for a large sale). The underwriting banker then sells these bonds to individual investors.

Q: What is a defeasance?

A: Defeasance is the release of covenants and contractual obligations of an issuer by setting aside sufficient money to retire the outstanding debt when due. Usually, this is done for economic reasons. An issuer would replace higher interest debt used to call the old bonds or by issuing lower interest bonds. The proceeds are set aside in an escrow for the retirement of the more expensive debt over time until the call date.

Bond Sales Calendar*

If you are interested in purchasing any of these bonds, please contact your broker two weeks before the sale date. For updated information, check our website (www.treasurer.ca.gov) or call (800) 900-3873.

BOND SALES	AMOUNT	SALE DATE
Various Purpose General Obligation Bonds	\$500 million	September 11, 2001
Revenue Anticipation Notes	\$5.7 billion	September 13, 2001
State Public Works Board	\$50 million	To be determined
Various Purpose General Obligation Bonds	\$500 million - \$1 billion	To be determined
Water Resources Electric Power Program Bonds	\$12.5 billion	October-November 2001
Department of Veterans Affairs, General Obligation Bonds	To be determined	December 2001

***Subject to change without notice.**

Bond Sale Appointments

Revenue Anticipation Notes

Senior Manager: Lehman Brothers

Co-Senior Managers: Banc of America Securities LLC; Merrill Lynch & Co.; Goldman Sachs & Co.; and Siebert Brandford Shank & Co., LLC

Co-Managers: Bear, Stearns & Co. Inc.; E.J. De La Rosa & Co., Inc.; J.P. Morgan Securities Inc.; Morgan Stanley; Redwood Securities Group, Inc.; Salomon Smith Barney; The Chapman Company; UBS PaineWebber Inc.; A.G. Edwards & Sons, Inc.; Banc One Capital Markets Inc.; CIBC World Markets Corp.; Dain Rauscher Incorporated; Fidelity Capital Markets; Loop Capital Markets; M.R. Beal & Company; Mischler Financial Group, Inc.; Pacific American Securities, LLC; Ramirez & Co., Inc.; Roberts and Ryan Investments, Inc.; Stone & Youngberg LLC; and Sutter Securities Inc.

Financial Advisor: Public Resources Advisory Group

Lead Bond Counsel: Orrick, Herrington & Sutcliffe LLP

Co-Bond Counsel: Law Offices of Marilyn L. Garcia

Disclosure counsel: Quateman & Zidell LLP